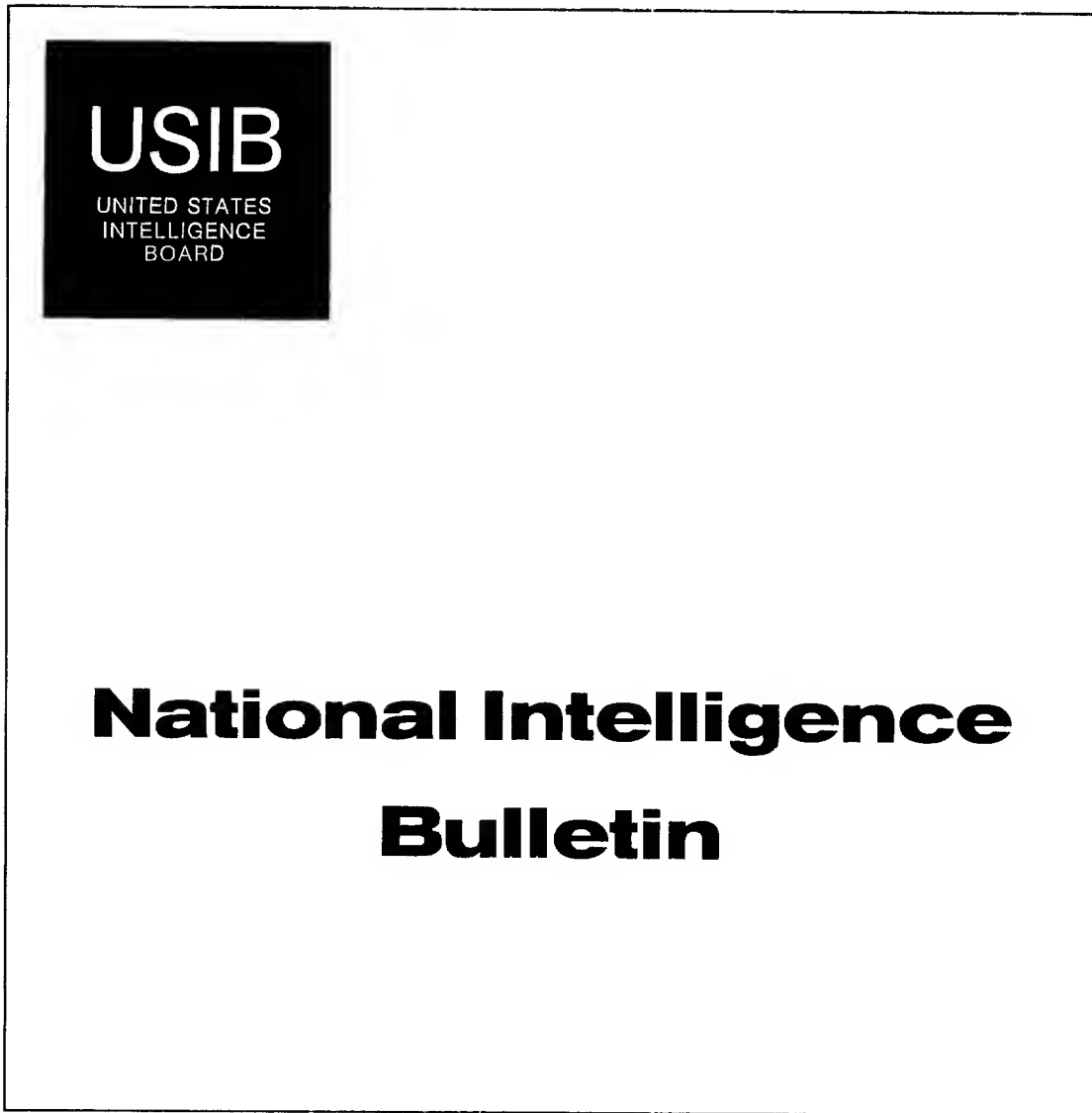


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USSR

Presenting the annual budget for 1975, Soviet Finance Minister Garbuzov announced that for the second year in a row, planned defense spending will decline.

The USSR claims that defense spending for 1975 will amount to 17.4 billion rubles, a decrease of about 1 percent from the 1974 figure of 17.65 billion rubles. After remaining virtually constant from 1970 through 1973, the announced Soviet defense spending figure has declined the last two years.

In sharp contrast to the announced budget figure, intelligence estimates project Soviet defense spending in 1975, including amounts for military research and development and for space, will be about 29 billion rubles--in 1970 prices--some 4 to 5 percent higher than 1974. Over the past two years, when announced spending has declined by 3 percent, these estimates show spending rising faster than at any time in the past.

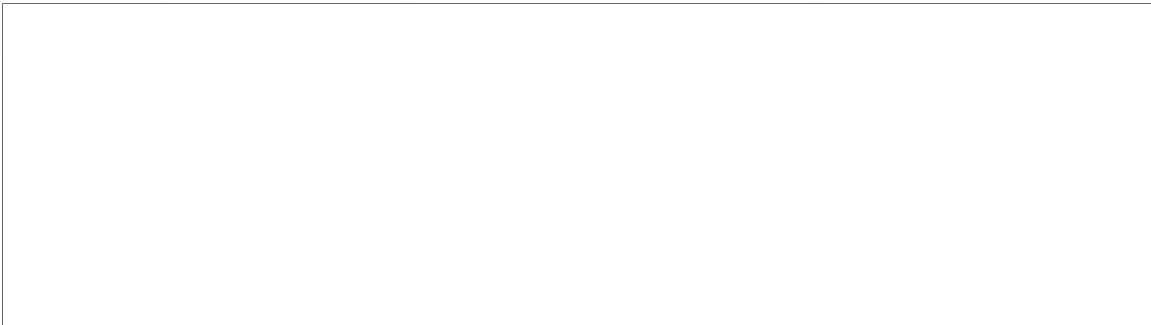
The main impetus to this surge comes from the Soviets' efforts to modernize their strategic missile force, continue deployment of new sea-based ballistic missile systems, and sharply increase expenditures for new tactical aircraft. These estimates are based on calculations of the cost of observed changes in military and space programs and forces. They are independent of the announced Soviet defense figure.

That public figure serves primarily as a political and propaganda device, both internationally and domestically. Claims of declining defense spending for the past two years, although contradicting trends in observed programs, are in keeping with the image the Soviets are attempting to project with their policy of detente. Brezhnev reportedly has expressed concern lest the Soviet people learn the true magnitude of the USSR's military expenditures at a time of domestic pressure for more consumer goods and services.

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The announced figure--the only public defense statistic given each year by the USSR--has little usefulness as an indicator of either the level or the trend of Soviet defense spending. For example, the announced defense budget declined in 1974, but actually there were major increases in Soviet military procurement programs and a large military pay raise.

In addition, some major items are not included in the announced figure. The most significant of these is military research and development. Most military research and development is funded under the "science" category of the state budget. The Soviets have not yet announced a budget figure for science for 1975.



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USSR-US

A strongly worded Soviet condemnation yesterday of efforts to link US economic relations with Soviet concessions on emigration apparently was intended to get Moscow's position firmly on the public record prior to final action by the US Congress on the trade bill.

The Soviets may have calculated that a last-minute reaffirmation of their position would not unduly jeopardize passage of the bill. In the meantime, they have set forth a public position so that if emigration rates do not come up to expectations, the Soviets cannot be said to have reneged on a promise.

Tass, in an authoritative statement, cited "leading circles" in the USSR as flatly rejecting any attempts at interference in Soviet internal affairs. In addition to the emigration issue, Moscow criticized those who were seeking economic information of a purely domestic nature. This is probably a reference to Soviet reluctance to exchange data on agricultural crop status and trade requirements.

To underscore this message, Tass also carried, in English and Russian, a letter on the emigration question from Foreign Minister Gromyko to Secretary Kissinger dated October 26. In the letter, Gromyko denied that any agreement exists on numbers of emigrants, and he reiterated the Soviet position that the number of people who wish to emigrate from the USSR is declining.

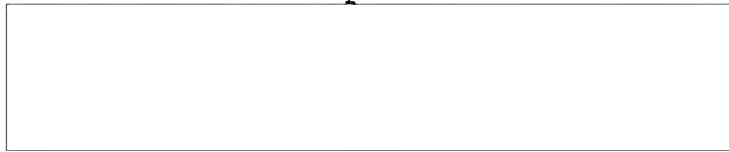
The Tass statements represent Moscow's first extensive commentary on the trade and emigration issue since the trade reform bill was approved by the US Senate last Friday and sent to a conference committee preliminary to final approval by both houses.

The Soviet leaders may have felt that the statements were necessary to counter any suspicions in the USSR or elsewhere that the Kremlin had shown weakness

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in dealing with Washington on this issue. This show of sensitivity is reminiscent of the attack against outside interference that Brezhnev made at a dinner for Treasury Secretary Simon on the eve of the compromise announcement last October.



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PORTUGAL

The government, through the news media, has widely publicized the US offer of economic aid and stressed its political significance.

All newspapers have carried the full text of the joint statement that was prepared in response to President Costa Gomes' request for a positive demonstration of US support. In a televised address, the President's top aide said the offer represented an act of political support from an ally and old friend. Foreign Minister and Socialist Party leader Mario Soares said that the offer reflects US confidence in Portugal's future and that its political significance far outweighs its economic content.

The US offer is the first foreign government economic aid and is not linked to the Azores bases negotiations. In addition to direct assistance totaling more than \$220 million, the US will support Portugal in gaining economic assistance from international organizations and urge other friendly countries to provide aid.

Although this initial aid offer falls considerably below the \$160 million in grant aid and \$260 million for armed forces modernization that were suggested by Soares several months ago, the US offer has been well received. Lisbon will expect the US to be more forthcoming, however, in negotiations for extension of the Azores bases agreement.

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CYPRUS

President Makarios is moving to consolidate his position within the Greek Cypriot community prior to resuming the intercommunal talks.

According to the US embassy in Nicosia, Makarios is moving ahead cautiously to reimpose his control over the Greek Cypriot sector, but is attempting to avoid provoking his opponents on the far right or arousing the expectations of his supporters. Since his return to the island on December 7, the archbishop has held several meetings with former acting president Clerides and other Greek Cypriot leaders to solicit their views on the composition of his government and on a negotiating strategy in talks with the Turkish Cypriots.

Clerides believes that Makarios is inclined to form a government of national unity comprised of individuals representing all political interests. The ministers, however, would not serve as official representatives of any group or be responsible to them. Such an arrangement would permit Makarios to choose only those individuals on the far left or far right who placed their loyalty to him above their respective political parties.

Clerides reportedly is attempting to persuade Makarios to select a cabinet consisting largely of technicians and civil servants in order to deal more effectively with the many problems confronting the Greek Cypriot sector. Clerides suggested to Makarios that such a cabinet could be assisted by a separate "advisory board" composed of the leaders of all political groups to counsel the archbishop on the negotiations with the Turkish Cypriots.

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RHODESIA

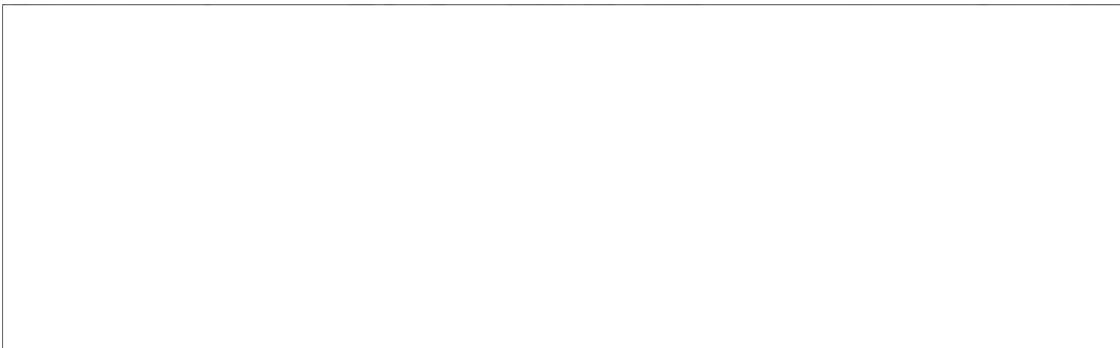
Despite the outward show of unity displayed by the black Rhodesian nationalists at the conclusion of their talks early this month in Lusaka, the principal leaders now seem preoccupied with outmaneuvering each other for control of the new organization they all agreed to join. Their jockeying is likely to intensify and may delay the projected settlement talks with Rhodesian Prime Minister Ian Smith.

When Joshua Nkomo of the Zimbabwe African Peoples Union and Ndabaningi Sithole of the Zimbabwe African National Union agreed to merge their insurgent groups with the noninsurgent African National Council under the chairmanship of council leader Bishop Muzorewa, the organizational details and allocation of leadership positions were left to be resolved at a future congress of the newly enlarged council. According to the unity declaration that the nationalists publicized on December 8, the congress is to be held within four months.

Some of the nationalists reportedly maintain the congress must be convened before talks with Smith are held. Others are said to fear that such timing will only reveal the deep factionalism that exists among the nationalists.

The key figures in the developing power struggle seem to be Nkomo and Herbert Chitepo, the hard-line chief of the Zimbabwe African National Union's guerrilla base in Zambia. Chitepo appears motivated primarily by a desire to bar Nkomo from leading the new unified movement.

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The other nationalist leaders seem to be lining up with one side or the other. Several of them claim some degree of tribal support in Rhodesia, and they hope to draw upon this when a congress of the African National Council is held.

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ARGENTINA

Promotions and assignments being made in the army reflect a changing relationship between the government and those elements of the army considered non-Peronist.

Of 14 new brigadier generals, only one is considered to have Peronist ties. Most key command assignments will now be in the hands of non-Peronist officers.

The decision of the Peron government to promote officers on merit rather than on their political sympathies probably reflects the government's realization that the army must not be pushed too far. The assassination of ten army officers by the People's Revolutionary Army, coupled with the reluctance of army commanding General Anaya to press for a full-scale antiterrorist role by the armed forces, has resulted in lower morale.

This present governmental position contrasts with Congress' refusal in December 1973 to approve four colonels for promotion, primarily because of their alleged anti-Peronist political sympathies. This led to the resignation of the then army commanding general and the appointment of Anaya, who has been a malleable and non-political commander.

The government would like to have an army commander with Peronist sympathies, but the strengthened position of the non-Peronist officers makes this unlikely. Luis Gomez Centurion, a former military attaché to the US and a non-Peronist, has played a significant role in the government's successful antiterrorist campaign in northeastern Argentina, and he would be a popular choice within the army. He will become the ranking major general and next in line for this position on January 1.

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CUBA-UN

Cuba has been inching its way back into the Latin American regional group at the UN, from which it has been excluded since the early 1960s.

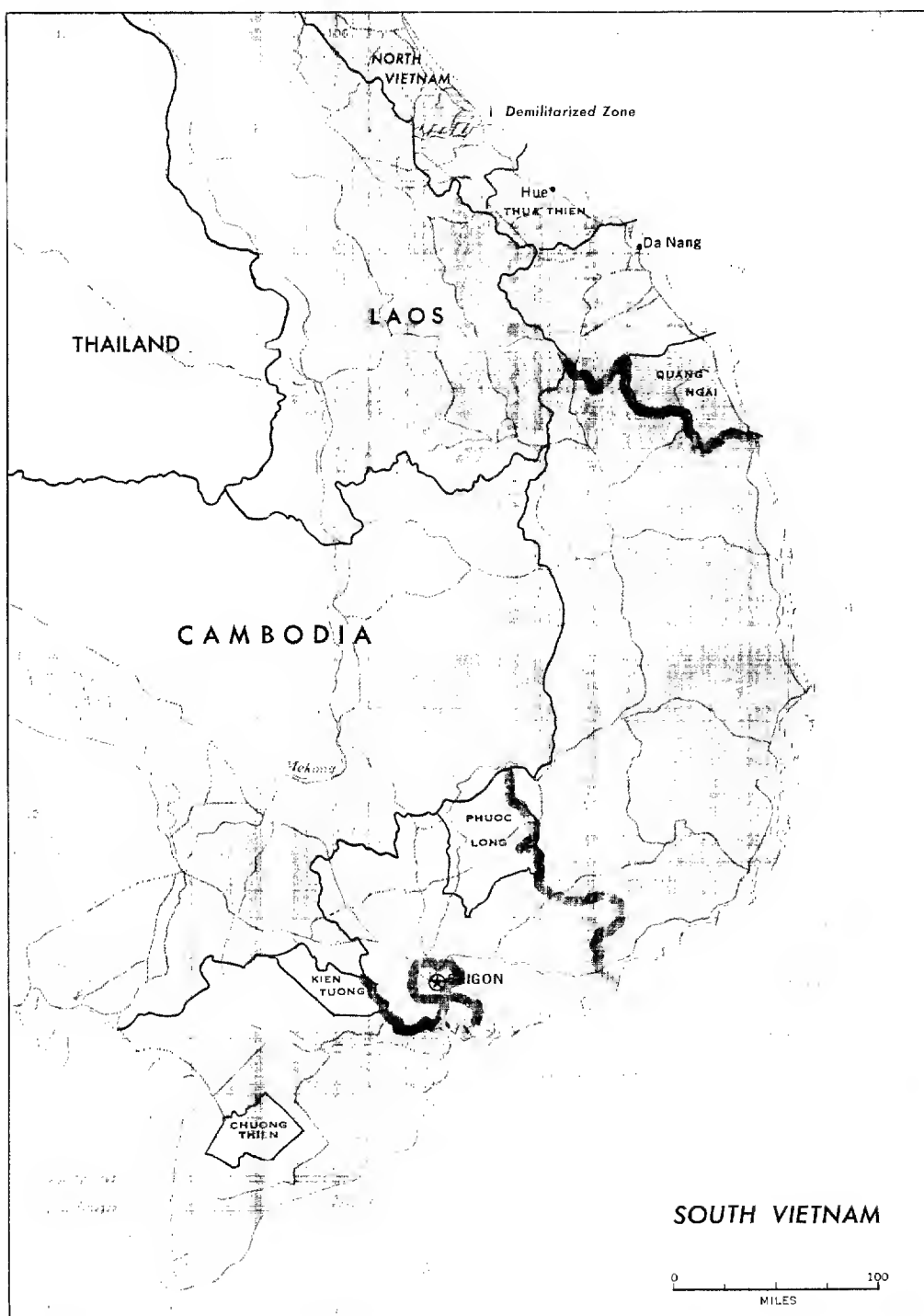
Havana is likely to win its bid for the Latin American seat vacated by Venezuela on the committee for decolonization, over objections from some of the regional group members. Cuba rebuffed the group on its offer of a seat on the World Food Conference in exchange for withdrawing its bid for the decolonization committee. Cuba's special interest in this committee probably relates at least partly to its repeated efforts to inscribe the "colonial case of Puerto Rico" on the decolonization agenda.

Despite the Latin Americans' endorsement of Guatemala for the seat, General Assembly President Bouteflika plans to take advantage of his discretionary power to appoint Cuba, which submitted its bid first. Some Latin delegates are continuing to argue that since Cuba was elected to another UN post as an East European - socialist candidate, it has forfeited a claim to the Latin group. Their argument is unlikely to persuade Bouteflika, who appears to have made a commitment to Havana's delegate.

This spring, for the first time in over ten years, Cuba was invited to cosponsor an initiative originating with the Latin group. Soon after that, Peru ceded to Cuba its place on the Group of 77 negotiating team for a conference with the developed countries. In October, furthermore, Cuba was elected as a Latin representative on the UNESCO executive board.

Meanwhile, the OAS has moved a step closer to lifting sanctions against Cuba. The working group drafting amendments to the Rio Treaty gave unanimous support to changing the voting requirement so that sanctions can be lifted by a simple majority. It was the current two-thirds requirement that stymied the effort last month at Quito. The Rio Treaty amendments will be forwarded for action to the OAS General Assembly next April.

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SOUTH VIETNAM

The Communists are continuing to pressure South Vietnamese forces in the southern half of the country, while sporadic activity continues in the north.

In Communist-controlled areas of Phuoc Long Province, northeast of Saigon, government local forces have recaptured recently lost positions, but the Communists still threaten the population centers.

Elsewhere in the provinces around Saigon, pressure has slackened, but Communist units continue to interdict roads and ambush government forces and have increased their rocket and mortar attacks. These actions are designed to harass the South Vietnamese and keep them on the defensive while Communist forces regroup for another round of attacks, to which they may commit divisional units.

In the delta, the most recent fighting has been around the capital of the newly created Hung Long district, in the southern part of Chuong Thien Province. On December 16, after nearly two weeks of fighting, the Communists seized Hung Long, the first district capital to be captured in the delta. In an abortive effort to save Hung Long, the South Vietnamese airlifted elements of two regiments into the area. Other government outposts in marginally controlled areas also have been targeted by the Communist local forces.

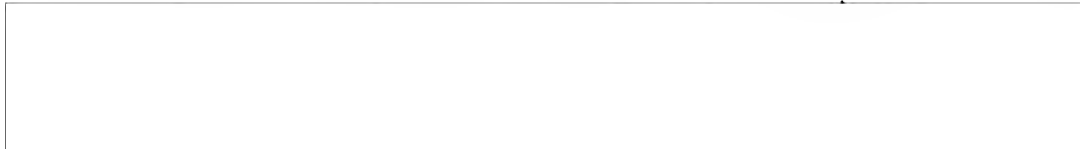
Fighting has lessened somewhat in Kien Tuong Province, near the Cambodian border. Activity will probably pick up, however, after the Communists have resupplied their units. The South Vietnamese have moved reinforcements into the area in an attempt to thwart the Communists' effort to seize the rice harvest and secure their infiltration routes.

Communist activity in the northern provinces of the country has been limited primarily to reaction to the government's clearing operations in a mountainous area of Thua Thien Province. To the south, in several

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smaller actions against territorial forces, the Communists may have succeeded in opening a resupply corridor to three local battalions in eastern Quang Ngai Province.

**KOREA**

The US and other backers of South Korea have blocked North Korea's attempt to win UN support for its campaign to get US troops out of the peninsula.

By a comfortable margin, the General Assembly on Tuesday accepted its Political Committee's resolution calling on the Security Council "in due course" to consider the question of the UN--and, by implication, the US--military presence in South Korea. The opposing resolution, which called outright for US troop withdrawal, had been defeated in a tie vote in the Political Committee, and Pyongyang's backers made no move to reintroduce it at Tuesday's plenary session. Also, Pyongyang's backers were not receptive to a last-minute effort by Nordic nations to work out a compromise incorporating elements of both resolutions.

The outcome is a setback to North Korean hopes of marshaling a UN majority with Third World support against the US military presence in South Korea. Pyongyang, however, made effective use of the months of backstage diplomatic preparation and the week or so of committee debate on the issue to call attention to the dual legal status of US forces in Korea. One recent result has been a private Japanese request for details of the structural relationship between the UN Command and US forces stationed in South Korea. US bases in Japan serve UN as well as US military needs.



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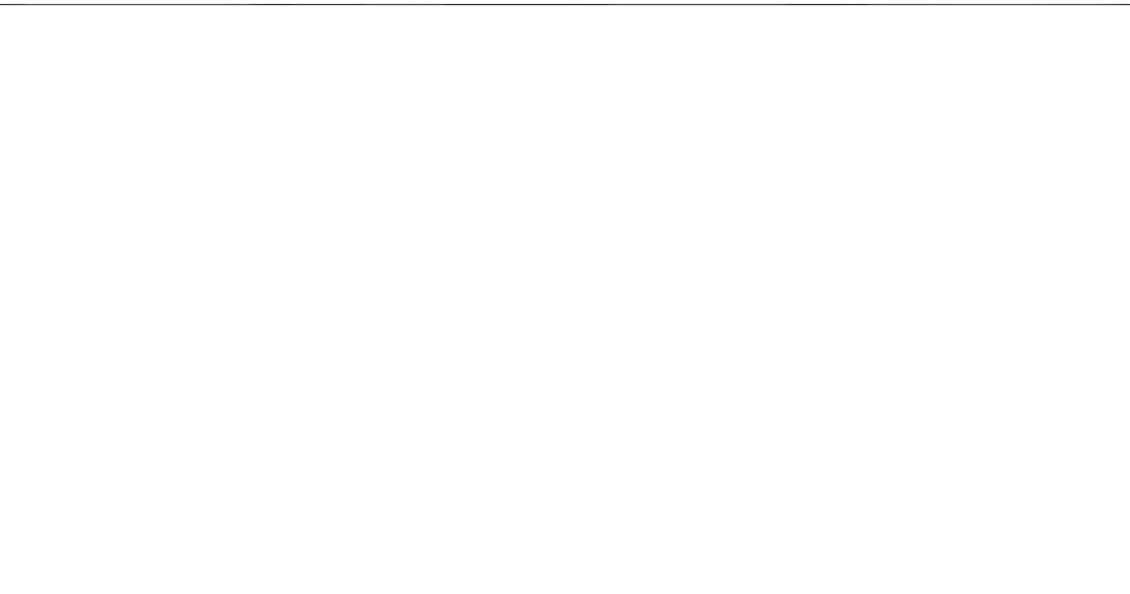
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FOR THE RECORD

USSR: Nikolay Baybakov, head of the USSR State Planning Organization, reported to the Supreme Soviet yesterday that this year's grain crop amounted to 195.5 million tons--10 million tons short of the target. Nevertheless, Baybakov touted the crop as second only to last year's record crop of 222.5 million tons. He blamed bad weather for the reduced output.

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Korea: Seoul has admitted that an abandoned, heavily damaged North Korean boat towed into a South Korean port earlier this week is not an agent infiltration boat but a fishing vessel. The South Koreans say they will now return the craft to North Korea.

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